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# Carbon Pricing and COVID-19

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**The COVID-19 crisis has disrupted consumption, production and government policy-making. This post and the accompanying paper argue that, despite these challenges, if one were to adopt or strengthen carbon pricing—either carbon taxes or cap & trade—during the COVID-19 crisis would be the time to do it.**

While carbon pricing has been on the mouths of **politicians** (https://clcouncil.org/), **economists (https://www.econstatement.org/)**, and **thought (https://prosyn.org/cL6cNDx)** **leaders (https://www.economist.com/leaders/2020/05/21/countries-should-seize-the-moment-to-flatten-the-climate-curve)** for years, there has always been uncertainty about *when* to introduce it. On the one hand, consumers balk at increased energy prices. On the other hand, supply chains and other production would face costly changes if the incentives for carbon changed. Finally, it is unclear whether a conservative case can be mounted for increasing government revenue.

In a **recent paper** (https://doi.org/10.1080/14693062.2020.1831432) co-authored with colleagues in *Climate Policy*, we argue that, if one wanted to adopt or strengthen a carbon price, the COVID-19 crisis may be—counterintuitively—an ideal time to do it. We take carbon pricing to be policies which price carbon to internalize the externalities it generates (primarily for the climate). The basic rationale is straightforward: if emitting carbon does harm to society, then the emitters should pay some of that cost so the public does not foot the bill. However, the timing of introducing that carbon pricing is less often discussed. We say that the case for adopting it during this period is stronger than under normal conditions.

First, consider consumers. Consumers are highly sensitive to energy price increases, especially when those go above ‘normal’ prices, or ones for which they **mentally account (https://doi.org/10.1002/(SICI)1099-0771(199909)12:3%3C183::AID-BDM318%3E3.0.CO;2-F)**. But the COVID-19 crisis followed a **price war until April 2020 (https://static01.nyt.com/images/2020/04/13/nytfrontpage/scan.pdf)** which led global oil prices to plummet. This was followed by the demand shock from COVID-19, leading to continuing low energy prices. As long as consumers are mentally accounting for pre-shock prices, these prices are low, meaning that increased costs from carbon pricing is better placed to be introduced now than when prices are closer to normal levels.

Second, consider producers. Shifting to take account of greener supply and production requires shifting and on-shoring processes. These are undeniably costly for production. But in the context of COVID-19, we have evidence that production and consumption shocks **have led to major destabilization (https://www.economist.com/leaders/2020/05/21/countries-should-seize-the-mo-**

**ment-to-flatten-the-climate-curve)** in production processes. Against this backdrop, changes in production would be less costly than in circumstances where those processes are already being affected. For this reason, carbon pricing is better to introduce now than when production is not being revamped.

Finally, consider government. While the final bill for desperately needed stimulus and security for the public is not in—and may not be in for years—estimates are astronomical. One estimate published in the Financial Times put the **estimated cost for OECD nations at $17tn (https://www.ft.com/content/66164bbc-40c7-4d91-a318-a0b4dbe4193e)** on the public balance sheet. This is for good reason; the public is hurting and the government can act countercyclically to protect them. However, it raises the question of where justifiable additional sources of revenue can be brought in. We argue that carbon pricing is a form of revenue that can help the public and, if the use of the revenue is transparent to address COVID-19, potentially justifiable. (We also consider the alternative case, that since COVID-19 already disproportionately harms those who are worst off, we should use the revenue to reduce any regressivity introduced by such pricing. We think this argument has merits, but much of the best policy responses to COVID-19 would also be progressive.) In the context of COVID-19, the need for such revenue sources is especially critical.

On these grounds, we think the case is strong that, if one wished to consider introducing or strengthening carbon pricing, these conditions might make this crisis an opportune time.

Read the **full article** (https://doi.org/10.1080/14693062.2020.1831432) here.

**(https://climatestrategies.files.wordpress.com/2020/11/kian-mintz-woo.jpg)**

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